

485012

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July 10, 2000

Mr. James Stout
URS Radian
707 Seventeenth Street
Suite 3400
Denver, CO 80202

Dear Mr. Stout:

As you requested, we have inspected and appraised the Export Plant located on the southwest corner of Highway 37 and Thomas Street in Libby, Lincoln County, Montana.

The legal description is in Exhibit A.

Executive summary:

PROPERTY: Export Plant
Southwest corner Highway 37 and
Thomas Street
Libby, Lincoln County, Montana

Occupied by Millwork West, Inc. and
Phil Spencer

ASSESSOR'S CODE: 0000009890
0000003377 (lease)

LAND SIZE: 10.936 acres gross
9.917 acres net of undedicated roadway

BUILDING DESCRIPTION:	A - Planer shop	4,520 sq.ft.
	B - Pole Barn	7,000 sq.ft.
	C - Vermiculite storage warehouse	3,800 sq.ft.
	D - Lumber warehouse	2,490 sq.ft.
	E - Small shed	1,725 sq.ft.
Total		19,535 sq.ft.

FIXTURES AND
PERSONAL PROPERTY: Lumber, leasehold improvements, trade
fixtures, building fixtures/equipment, trade
equipment

Mr. James Stout
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INTEREST APPRAISED: Fee simple value of the real estate.

Allocation of real estate value between
 leasehold and leased fee.

Use value of trade fixtures, equipment, and
 inventory (i.e., value as these items contribute
 to the value of the business).

NOT VALUED: Goodwill/intangible portion of business (not to
 be taken), losses due to interruption of
 business.

ZONING: Industrial

HIGHEST AND BEST USE: Industrial

STRENGTHS: 1,075.64 feet of frontage on the Kootenai River.
 Excellent rail. Good access, visibility. Useful
 improvements.

WEAKNESSES: Age of improvements. Undedicated rights-of-
 way. Poor economy.

DATE OF VALUE: June 22, 2000

VALUE ALLOCATED TO

	LEASED FEE (LANDLORD)	LEASEHOLD (TENANT)
Land (page 17)	\$ 88,000	
Plus buildings (page 19)	32,000	
Other property:		
1a Lumber Racks (page 22)		\$ 21,300
1b Extension Shed (page 22)		5,600
1c Rail Ramps (page 24)		4,300
1d Office (page 25)		8,300
2a Planer (page 29)		100,000
2b Trucks (page 30)		13,700
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2d Fairbanks Scale (page 31)	2,500	
3 Retail product (page 32)		357,000
4 Supplies (page 33)		48,900
Total	\$ 122,500	\$ 589,100

These values are all cash or its equivalent and subject to the Standard
 Conditions and Certification in the report.

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5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Source: Federal Register, Volume 55, No. 165, Page 34696, August 20, 1990.

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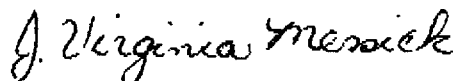
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Data and reasoning applied in arriving at the value conclusions are summarized in the report that follows.

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Certified General Appraiser
Montana #607



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ENB/JVM:ljs

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- A LEGAL DESCRIPTION
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- C PRINTOUTS OF OTHER PROPERTY
 - PHOTOGRAPHS OF OTHER PROPERTY

PREFACE

PROPERTY IDENTIFICATION

The subject of this appraisal is a facility known as the Export Plant in Libby, Montana. It has five buildings totaling 19,535 square feet supported by 10.936 acres (9.917 acres net of undedicated roadway). It is located on the southwest corner of Highway 37 and Thomas Street in Libby, Lincoln County, Montana. The legal description is in Exhibit A.

PURPOSE AND USE OF THE APPRAISAL

The purpose of this appraisal is to estimate market values of the subject property. The use of this report is for making business decisions.

DEFINITIONS

Market Value

Market Value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
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3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms or financial arrangements comparable thereto; and

PREFACE

5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Source: Federal Register, Volume 55, No. 165, Page 34696, August 20, 1990.

Fee Simple – Property Right Appraised

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Leased Fee

An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease. In this instance the lease terms show that the value of the leased fee is equal to the value of the fee simple.

Leasehold

The interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions. The tenant does not have a marketable leasehold value in the *real estate*. Leasehold improvements are treated as a separate item below.

Use Value

The value a specific property has for a specific use. Included are:

- leasehold improvements/trade fixtures
- equipment/vehicles
- retail product
- supplies

PREFACE

Most of this value is in personal property. The value of the items of personal property that are not in use or are not part of the operation become market value.

**STATEMENT OF OWNERSHIP AND
HISTORY OF THE SUBJECT PROPERTY**

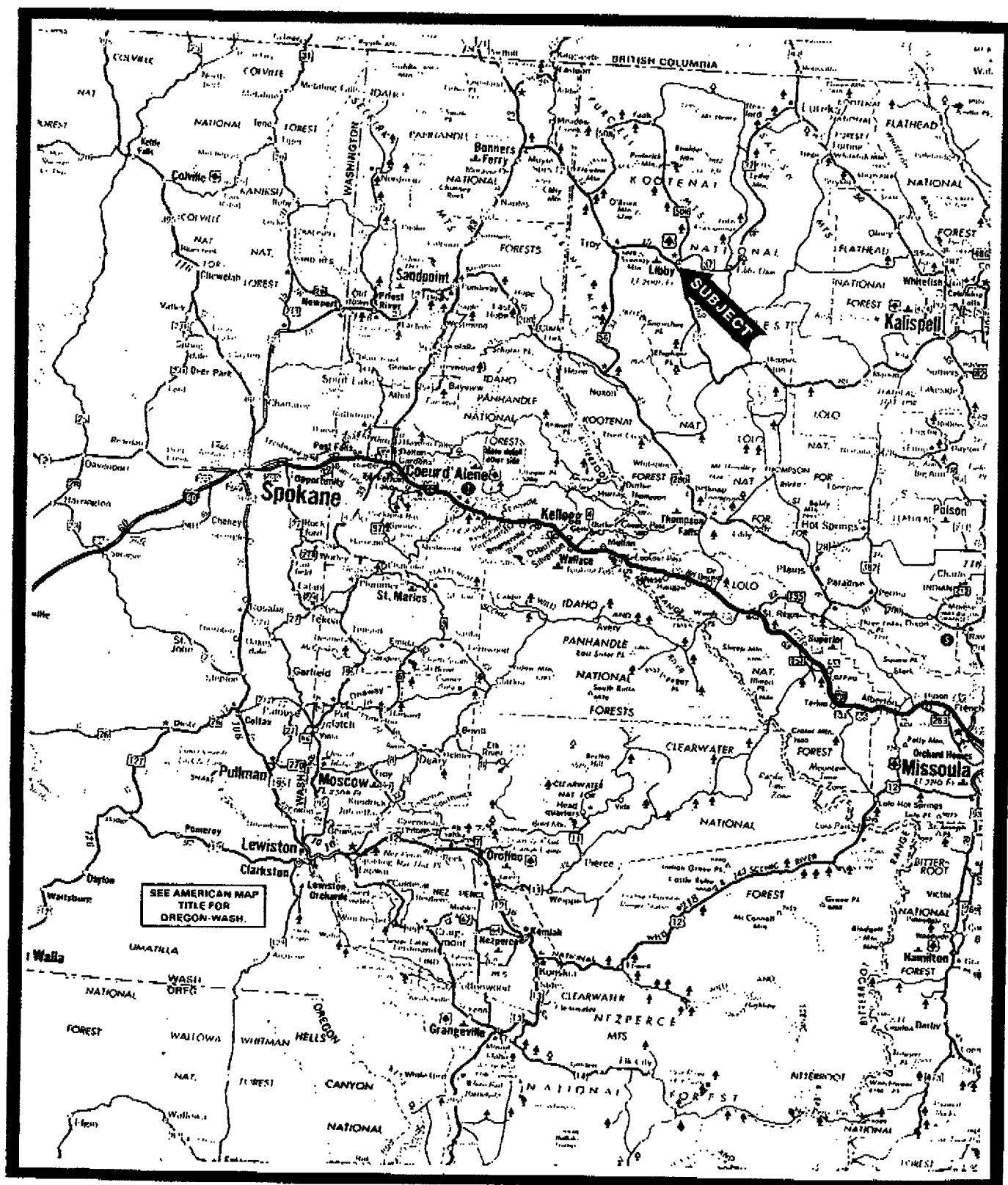
W.R. Grace & Company conveyed the subject property to the City of Libby, Montana on May 12, 1994 as recorded in Lincoln County Deed Book 200 at Page 838. This was reported to be a gift.

In October 1994, the City of Libby leased a 1-acre site plus buildings to Millwork West, Inc. for 1 year for a monthly rental of \$400. Currently, Millwork West, Inc. is on a month-to-month lease at \$600 per month. However, the tenant now uses four buildings and about 3.5 acres. The fifth building is leased to Phil Spencer for \$100 per month. Mr. Spencer is 5 months in arrears on the rent, and the City of Libby has requested that he vacate the premises.

EFFECTIVE DATE OF APPRAISAL/DATE OF INSPECTION

The effective date of this appraisal is June 22, 2000. Inspections and inventory took place from June 21 through June 24, 2000.

FIGURE 1
SUBJECT LOCATION

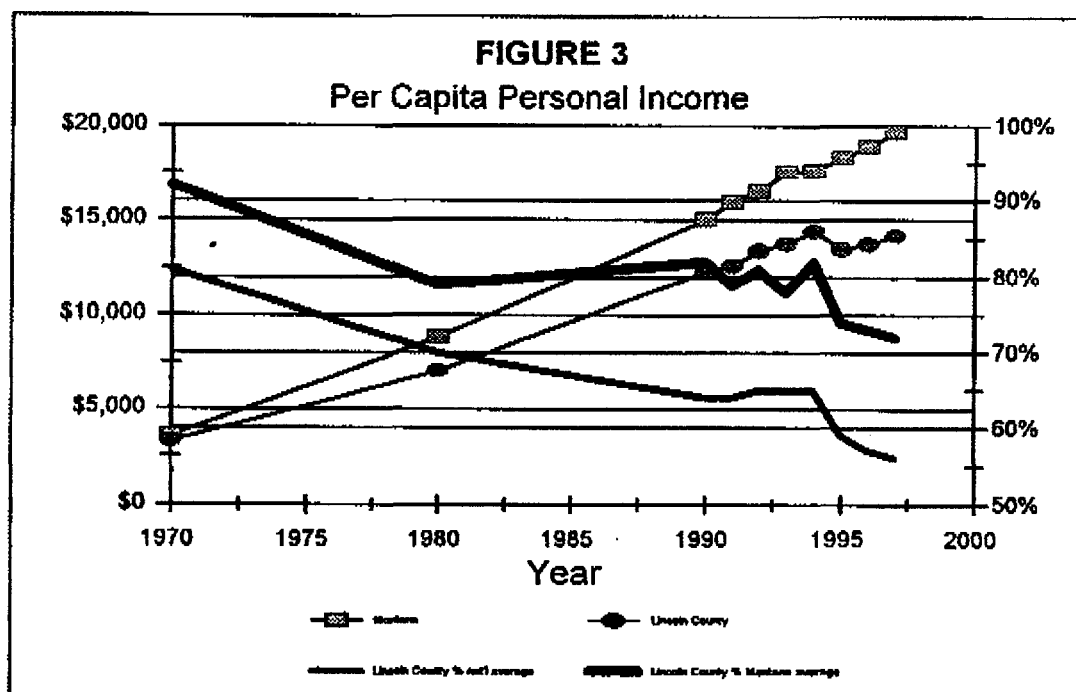
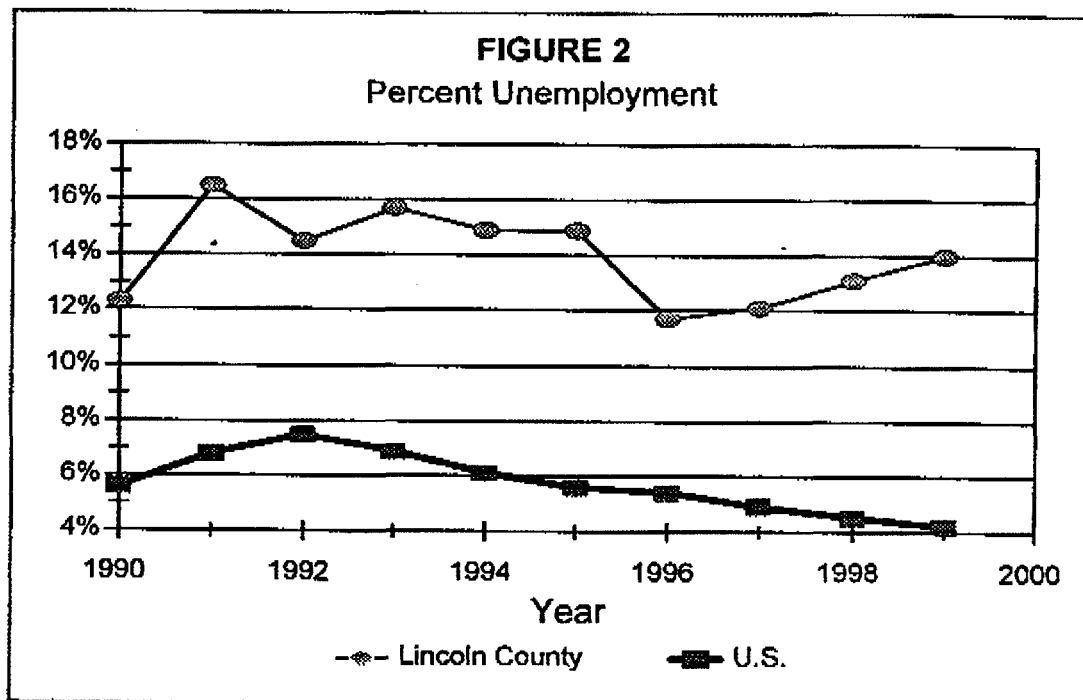


SUBJECT LOCATION

The subject property is located in Libby in Lincoln County, situated in the northwest corner of Montana. Libby is about 25 miles east of the Idaho border and 40 miles south of the Canadian border. Access is provided by State Highway 2 and Highway 37. Please refer to Figure 1, Subject Location, facing.

Estimated population of Lincoln County as of July 1, 1998 was 18,696. Libby's population was 2,675, up 143 people from April 1, 1990.

Lincoln's economy is dependent upon lumber, wood products, and government. Thirty-six percent of annual wages comes from the government which is primarily due to the forest service. Only 7% of the land in Lincoln County is in private ownership. Lumber manufacturing declined 12.81% from 1986 to 1995. It is anticipated to continue to decline 10% more between 1996 and 2006. This does not bode well for the area.



SUBJECT LOCATION

The unemployment rate of Lincoln County has been:

UNEMPLOYMENT RATE		
YEAR	LINCOLN COUNTY	U.S.
1990	12.3%	5.6%
1991	16.5%	6.8%
1992	14.5%	7.5%
1993	15.7%	6.9%
1994	14.9%	6.1%
1995	14.9%	5.6%
1996	11.7%	5.4%
1997	12.1%	4.9%
1998	13.1%	4.5%
1999	14.0%	4.2%

Please refer to Figure 2, Percent Unemployment, facing. It is interesting to note that as the U.S. unemployment rate has declined, Lincoln County's unemployment rate has increased. It appears that Lincoln County's employment is counter-cyclical to the United States.

Per capita personal income has been:

PER CAPITA PERSONAL INCOME										
	1970	1980	1990	1991	1992	1993	1994	1995	1996	1997
Montana	\$ 3,558	\$ 8,842	\$ 15,038	\$ 15,947	\$ 16,541	\$ 17,571	\$ 17,590	\$ 18,288	\$ 18,872	\$ 19,660
Percent of national average	87%	88%	79%	81%	81%	83%	80%	79%	78%	78%
Lincoln County	\$ 3,289	\$ 7,026	\$ 12,313	\$ 12,639	\$ 13,400	\$ 13,759	\$ 14,415	\$ 13,497	\$ 13,750	\$ 14,190
Percent of national average	81%	70%	64%	64%	65%	65%	65%	59%	57%	56%
Lincoln County percent of Montana average	92%	79%	82%	79%	81%	78%	82%	74%	73%	72%
Source: U.S. Department of Commerce Bureau of Economic Analysis, Regional Economic Information System, Released May 1999.										

Please refer to Figure 3, Per Capita Personal Income, facing.

SUBJECT LOCATION

Lincoln County's per capita income remained relatively stable since 1990. However, during that period:

- Lincoln County's income went down when the CPI is considered
- Lincoln County's income went down relative to the rest of Montana
- Lincoln County's income went down relative to the rest of the country

Examples of a soft real estate market in Libby are:

- Average time on market of single-family residences is over 1 year
- Single-family sites that permit mobile homes sell for more than otherwise similar sites that do not permit mobile homes. The resulting mobile home residence is less expensive than stick built.
- Widespread non-payment of rent.
- A medical office sale at 60% to 65% of listing price and over 4 years on market.
- Use of commercial buildings which would be considered dilapidated or uninhabitable in a healthy market.

CONCLUSION

The economy in Libby is poor, the market is weak, and values are not increasing.

SUBJECT PROPERTY (REAL ESTATE)

SUBJECT SITE

The subject site contains 10.936 acres. After netting out the undedicated road, size is 9.917 acres. This irregularly-shaped site fronts 1,075.64 feet on the south side of the Kootenai River and 861.63 feet on the north side of the Burlington Northern Railroad. It extends to a maximum depth of 694.65 feet. The site is level throughout but about 28 feet below State Highway 37 that abuts the property to the east. It is not in a flood plain. Please refer to Figure 4, Subject Site, facing, and to Exhibit A for photographs.

Utilities

Public water, electricity, and telephone services are available and connected to the subject site. Sewage disposal is provided by a septic system. The property has three rail spurs off the Burlington Northern Railroad. However, only one spur is functioning.

Easements

There is a paved road and a gravel road running through the site. Neither is dedicated, and both serve the same purpose, i.e., provide the only access to the properties northwest of the subject. There is surely a prescriptive right to access (only one road, not two) and this access is imputed in this appraisal.

The access will require 60 by 740 feet, or 1.019 acres. Net size is 9.917 acres.

Access

Access to the subject property is by way of California Street (State Highway 37) and Thomas Street.

SUBJECT PROPERTY (REAL ESTATE)**Soil Conditions**

We know of no engineering studies regarding soils at the subject. However, within the subject property as well as adjoining properties, the buildings are not cracked, streets are not heaving, etc. We conclude that there are no peculiarly difficult soil problems at the subject property.

Nuisances, Hazards, or Hazardous Substances

The subject property suffers from asbestos contamination which is suspected to be the result of historical vermiculite mining, storing, processing, and transportation conducted on and around the property.

Our value conclusion is as if clean.

Zoning

The subject is zoned industrial which provides for manufacturing process, business, or treatment. Wood may be stored on any unoccupied property in this area. No use permitted in any residence district or business district shall be excluded from the industrial district.

TAX ASSESSMENT

As stated by the Lincoln County Assessor's Office, the 2000 tax assessment for the subject property is:

ASSESSOR'S CODE: 0000003377 (LEASE)		
	ACTUAL VALUE	ASSESSED VALUE
Land	\$ 7,000	\$ 4,852
Improvements	\$1,000	33,891
Total	\$ 88,000	\$ 38,643
Times tax rate		x 0.037105
		\$ 1,430.14
Times mill levy		x 0.419970
		\$ 600.62
Plus refuse tax		85.00
Total taxes		\$ 685.62

SUBJECT PROPERTY (REAL ESTATE)

Please note this assessment is based on the Millwork West lease only.

According to the Lincoln County Treasurer's office, the taxes are paid in full. There are no prior or special taxes due.

DESCRIPTION OF THE IMPROVEMENTS

The subject site is improved with five buildings. The assessor's records indicate that the buildings were constructed in 1930. The improvements are in fair to poor condition, typical for buildings this age. Please refer to Exhibit A for photographs.

BLDG	DESIGNATION	DESCRIPTION	DIMENSION	AREA IN SQ. FT.
A	Planer shop	Wood framed with metal siding. Two rooms, used for lumber storage and planing. Roof corrugated steel. Built on concrete slab with concrete piers.	52 x 80 feet	4,520
B	Pole barn	Wood framed open-faced structure with corrugated steel siding and roof. Built on steel reinforced concrete slab.	82 x 85 feet	7,000
C	Vermiculite storage warehouse	Wood framed with wood siding and roof covered with corrugated steel. Built on concrete slab with concrete piers supporting beams and girders.	33 x 107 feet	3,800
D	Lumber warehouse	Wood framed with corrugated metal siding on interior and exterior walls. Roof is corrugated metal on wood joists. Built on concrete slab.	53 x 46 feet	2,490
E	Small shed	Wood frame with wood siding and roof. Corrugated steel roof. Concrete slab including a "filled" 6- x 6-foot sump.	32 x 56 feet	1,725
Total sq.ft.				19,535

Additional improvements to the site include three railroad spurs, one of which is operable. About half of the site has crushed aggregate base material placed and compacted into access roads and parking areas. The remainder of the site is covered in grass.

FAX

EPA Onsite Facility - Libby, MT

TO:
Paul P.

From: Jude H.
Contact Number: 303/932-1853

of Pages: 1st batch - ~~20~~ pages; 2nd batch to follow ~~18~~ pages (Plus Cover Sheet)

3rd Batch 11

~~20~~ Total 51 PAGES

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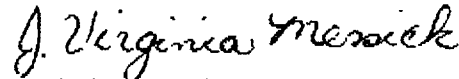
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PREFACE

PROPERTY IDENTIFICATION

The subject of this appraisal is a facility known as the Export Plant in Libby, Montana. It has five buildings totaling 19,535 square feet supported by 10.936 acres (9.917 acres net of undedicated roadway). It is located on the southwest corner of Highway 37 and Thomas Street in Libby, Lincoln County, Montana. The legal description is in Exhibit A.

PURPOSE AND USE OF THE APPRAISAL

The purpose of this appraisal is to estimate market values of the subject property. The use of this report is for making business decisions.

DEFINITIONS

Market Value

Market Value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

PREFACE

5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Source: Federal Register, Volume 55, No. 165, Page 34696, August 20, 1990.

Fee Simple – Property Right Appraised

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Leased Fee

An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease. In this instance the lease terms show that the value of the leased fee is equal to the value of the fee simple.

Leasehold

The interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions. The tenant does not have a marketable leasehold value in the *real estate*. Leasehold improvements are treated as a separate item below.

Use Value

The value a specific property has for a specific use. Included are:

- leasehold improvements/trade fixtures
- equipment/vehicles
- retail product
- supplies

OTHER PROPERTY

3. During the 179.2 hours the Weinig spends \$22.50 per hour or \$4,032 per month. The subject spends \$2,352 per month. The difference is a \$1,680-per-month advantage for the subject.

Subject advantage	= \$	1,680 per month
x 12	= \$	20,160 per year
Value at 4.5 cap	= \$	90,720

1. The value of the subject planer appears as:

\$	71,674	
Plus	90,720	capitalized value of labor advantage
Total	\$	162,394

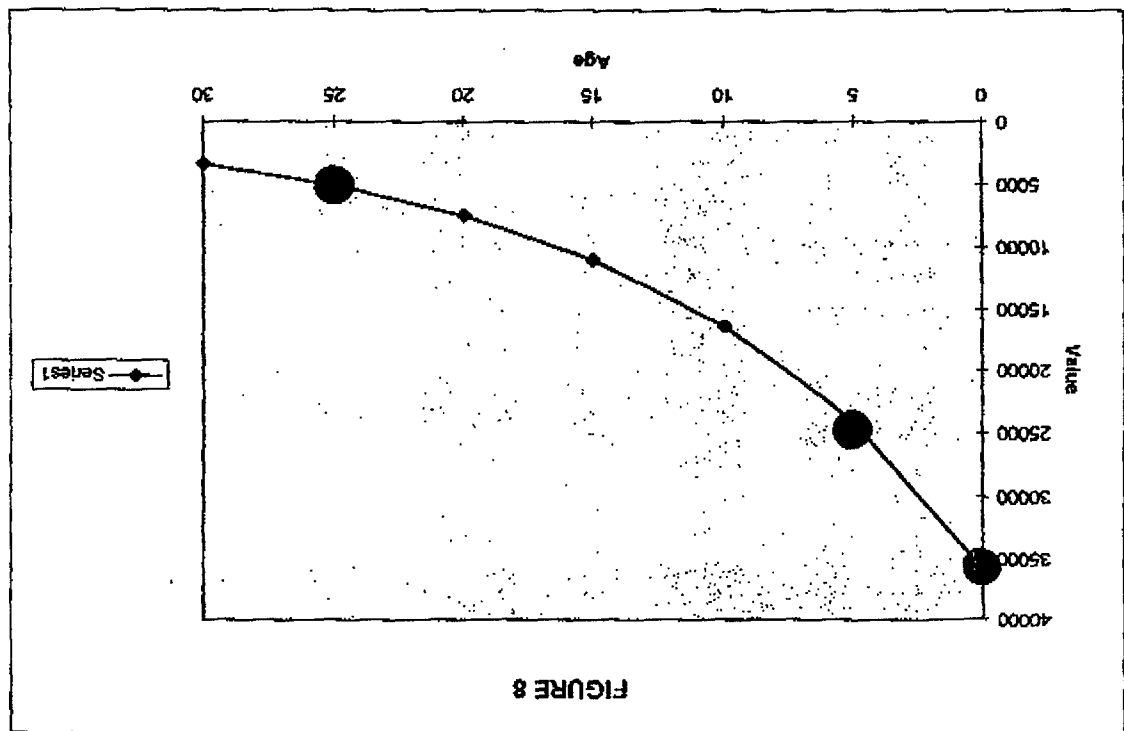
As noted earlier, the Woods planer is not marketable separate from this business. However, the numbers clearly show:

- a. The subject cannot compete with the \$200,000 Weinig.
- b. The subject can compete with and beat the \$60,000 Weinig.

We must exercise some judgment. For instance:

- The subject would not get the full \$20,160 annual labor savings. The Weinig can set up in minutes to do cuts that will take hours to set up on the Woods.
- The Woods is not expensive to maintain. However, any prospective purchaser would look at this 1938 machine and think it might be on its last legs.

In place the Woods is worth more than the \$60,000 Weinig. It is not worth \$162,394. We will apply \$100,000.



OTHER PROPERTY**b) The Trucks**

1. 1989 Chevrolet, 3/4 ton, 4 wheel. Bluebook \$10,175. Rounded to \$10,200.
2. Trailer – shown behind the 1989 Chevy. Our estimate is \$1,500.
3. 1978 Ford F600, 20-yard box. Bluebook does not go this far back. Estimates from classified ads for 1970s to early 1980s, 3/4- and 1-ton. Estimate, as retrofitted, \$2,000.

c) The Forklifts

1. Hyster, 1995, 8,000-pound
2. Hyster, 1975, 8,000-pound

We contacted Hyster offices in Spokane, Missoula, and Denver. We found there is a regular market in used forklifts. The 8,000-pound machines cost about \$35,000 new. They estimated the 5-year-old would be worth \$25,000 and the 25-year-old at \$5,000.

These three numbers produce the trend line shown in Figure 8, facing. This is common and expected for automotive equipment, i.e., steeper drops early and leveling off when older.

These values are what the owner could replace them for, not value in use. In this instance, he has and needs two forklifts. If these two were taken away, he can buy two more (unlike the moulder). Values are:

- 5-year-old - \$25,000
- 25-year-old - \$ 5,000

OTHER PROPERTY**d) Fairbanks Scale**

This is a Type S scale, 30,000-pound, measures to 1 pound, 12 x 24 platform, patent June 26, 1921, #7132C.

Scales this size are not used much for trucks; the weight and especially the platform are too small. These will tend to be used for cattle, some off-loaded freight, and so on.

This scale new would cost:

Platform	\$10,516
Balance beam	4,800
Installation	8,000
	\$23,116

This scale is not in use and has not been used for many many years. It has no value in use. Its value is "as is" installed. A buyer would salvage it, rehabilitate it, and either sell or use it.

Note that it can and would be rehabilitated. Fairbanks has made the Type S since well before the 20th century. Many of the oldest are still in use. Their mechanics are simple, a few levers and very few friction parts.

The Fairbanks office in Denver said it was worth \$2,000 to \$3,000 in Libby in place. It could be removed, rehabilitated, and resold profitably at that price.

We thought that there might be antique value. As shown in the photograph, it is an interesting piece, old lettering, and so on. What we found was that something this large does not fit well in office or living room, and the arm is not all brass. If it were, there would have been antique value, but the dealers we interviewed said they had no need for this one.

The value of the scale is \$2,500.

FIGURE 9

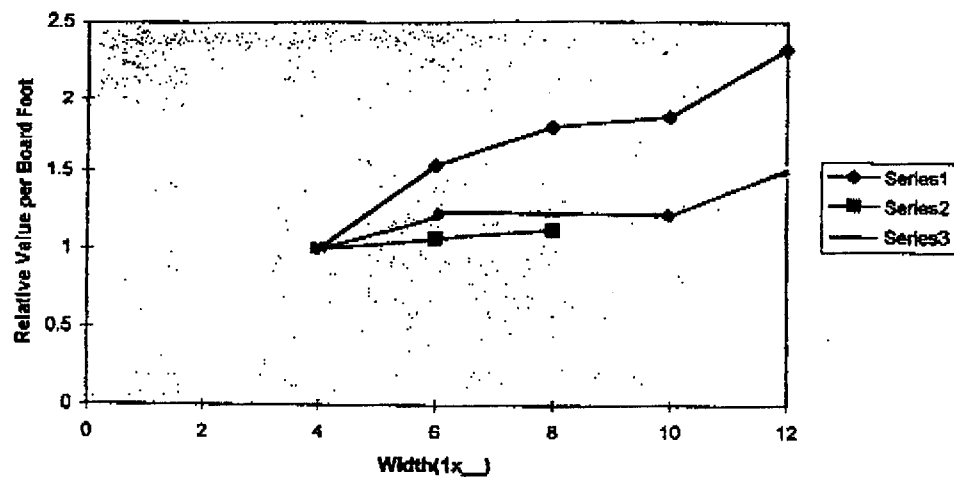
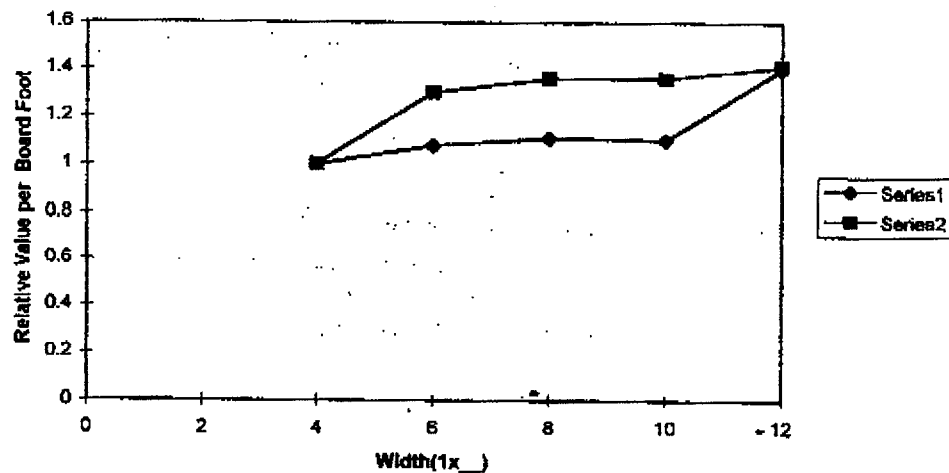


FIGURE 10



OTHER PROPERTY**3) RETAIL PRODUCT**

We had correspondence with Mr. Burnett. He shared his pricing with us and we compared them with prices we gathered in Denver.

The prices do not and will not, track exactly. Every yard has specials, loss leaders, bargains on product that was bought cheaply, and so on. However, Burnett's numbers and ours came close.

The two facing graphs show an interesting pricing trend. Figure 9 shows how some prices per board foot in Denver rise as dimensions increase. Figure 10 is the same graph except it has Mr. Burnett's prices instead of Denver. Please note:

- A board-foot is a 1-inch-thick piece of wood, 1-foot square, i.e., 144 cubic inches of wood.
- It is more difficult to get a wider, thicker piece. For instance, the "select" wood comes from the middle of the tree. It is easier to get a 1 x 4 than a 1 x 6 or a 1 x 8 or a 2 x 4, etc.
- Length does not matter. The prices per *foot* are the same, all else being equal, whether 6- or 16-foot. Usually anything longer than 16 feet will be two boards put together with finger joists.

The calculation sheets are in Exhibit C. We grouped items whenever possible and at the end we put some pages of very minor items into one lump sum.

The summary of our value estimate is:

	NO. OF PIECES	TOTAL VALUE
Pine	15,835	\$ 108,715
Fir and larch	10,938	124,362
Cedar	3,156	31,143
Insulation	338	9,328
Other product	±64,000	83,334
Total		\$ 356,882
Rounded to		\$ 357,000

OTHER PROPERTY**4. SUPPLIES**

For this valuation we have divided the trade personal property into six categories:

\$1 Items: Examples are partial cans of turpentine or an old screwdriver.

\$5 Items: Examples are containers of lubricant or a better hand tool.

\$10 Items: Examples are a tool belt or a box of heavy staples.

\$25 Items: Examples are the sawhorses or an old saw.

\$50 Items: Examples are the ladders or the telephone wire.

\$100 Items: Examples are the rooftops or the swing saw in the attic.

We did look at some comparables (e.g., there were ladders at the lumber yard and skil saws at Weinig distributor), but we did not actively seek a comparable for each item. Even exclusive of the planer/moulder there are somewhere around 1,000 supply items on site. There is no purpose served by digging into each of them.

The printouts are in Exhibit C. Results are:

64 items at \$ 1 =	\$ 64
154 items at 5 =	770
44 items at 10 =	440
44 items at 25 =	1,100
38 items at 50 =	1,900
446 items at 100 =	44,600
Total	\$ 48,874
Rounded to	\$ 48,900

STANDARD CONDITIONS

This is a complete appraisal presented in a self-contained report format which complies with the reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice for a self-contained appraisal report. This report presents a comprehensive level of detail in the presentation of information that was used in the appraisal process to develop our opinion of value.

We have no responsibility for legal matters, questions of survey, or opinions of title.

We appraised the property as though:

3. It has marketable title
4. there are neither hidden nor unapparent conditions relating to the real estate, soil, subsoil, or structures located on the real estate which would affect our analysis, opinions, and conclusions with respect to the real estate
5. free and clear of all leases, mortgages, liens, or other encumbrances (fee simple), except as may be discussed in this report
6. it had responsible ownership and competent management

Legal, engineering, or other technical advice as may be required has been, or will be, obtained by others from others, and that the appraisal report will not be used for guidance in matters which are legal or technical in nature.

Drawings in this report are intended as visual aids and should not be construed as engineering reports or surveys.

Loss or removal of any part of this report invalidates the entire appraisal.

No court attendance or testimony regarding this appraisal is required unless prior arrangements have been made.

STANDARD CONDITIONS

This report may be distributed by the client for whom it was prepared, in its entirety, to such third parties as may be selected by the client; however, selected portions of this report may not be given to third parties without our prior written consent and approval. Neither all nor any part of this report, or a copy thereof, may be conveyed by anyone, including the client, to the public through advertising, public relations, news or sales media, or other public means of communication without our prior written consent and approval.

The data gathered (except data furnished by the client) and this report belong to us. With respect to the data provided by the client, we will not violate the confidential nature of the appraiser-client relationship by improperly disclosing any confidential information furnished to us. However, we are authorized by the client to disclose all or any portion of the report and the related data to appropriate representatives of professional institutes and/or societies with which we are affiliated if such disclosure is required to enable us to comply with the bylaws and regulations of such organizations now or hereafter in effect.

The forecasts or projections included in this report are used to assist in the valuation process and are based upon buyers' and sellers' response to current market conditions and anticipated supply and demand factors. Future conditions may change in a manner not currently anticipated by buyers and sellers.

The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of the ADA could reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative affect upon the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.


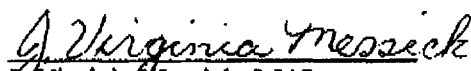
CERTIFICATION

We certify that:

- (a) We have no present or contemplated interest in the property that is the subject of this report.
- (b) We have no personal interest or bias with respect to the subject matter of this assignment or the parties involved.
- (c) Our compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event. The appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan. Similarly, future employment prospects are not dependent upon this appraisal producing a specified value.
- (d) To the best of our knowledge and belief, the statements of fact contained in this report are true and correct, and no important factors affecting the properties have been withheld or overlooked.
- (e) The reported analyses, opinions, and conclusions are limited only by the reported Standard Conditions, and are our personal, unbiased professional analyses, opinions, and conclusions.
- (f) Our analysis, opinions, and conclusions were developed and this self-contained report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice as promulgated by the Appraisal Standard's Board of the Appraisal Foundation, and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- (g) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- (h) As of the date of this report, we have completed the requirements of the continuing education program of the Appraisal Institute.

CERTIFICATION

- (i) We made a personal inspection of the property that is the subject of this report.
- (j) No one else provided professional assistance in preparing the analyses, opinions, and conclusions contained in this report.


E. Nelson Bowes, MAI, CRE, PE
Certified General Appraiser
Montana #607
J. Virginia Messick, MAI
Certified General Appraiser
Montana #606

HIGHEST AND BEST USE

Highest and best use is defined in the Eleventh Edition of *The Appraisal of Real Estate* as:

The reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value.

Highest and best use of land as though vacant identifies the use that will produce the highest land value. Within this analysis, uses must be physically possible, legally permissible, and financially feasible. Analysis of highest and best use of property as improved evaluates the present and anticipated productivity of the existing improvements. Given the existing market trends, this can lead to a conclusion of remaining economic life, if any, and could even lead to a conclusion that the present improvements should be razed. If so, the site would convert to a new use that represents the highest and best use.

AS IF VACANT

Physically Possible

The subject site contains 9.917 acres (net) and fronts 1,075.64 feet along the south side of the Kootenai River. It extends to a maximum depth of 694.65 feet to the Burlington Northern Railroad where it extends 861.63 feet along the railroad right-of-way. The site is level throughout but about 28 feet below State Highway 37 that abuts the property to the east. It is not in a flood plain.

Public utilities available and connected include water, electricity, telephone, and rail. Sewage is provided by a septic system.

Access to the site is by way of State Highway 37 and Thomas Street.

There are no physical limitations to the development of the site.

HIGHEST AND BEST USE**Conclusion**

The highest, best, and most productive use of the subject land is a long-term gamble on a future turn around.

AS IMPROVED

The subject site is improved with five buildings totaling 19,535 square feet on about 3.5 acres. Built in 1930, the improvements are in fair to poor condition, typical for their age.

A Lincoln County assessor mentioned that if a building has a roof in Libby, it will be used regardless of the age. It certainly seems to be true. The fact that the subject property has been leased since 1994 from the city, and W.R. Grace before that, is a testament to this statement. The lumber yard can sell product at retail (and use the planer) about as profitably in these buildings as in newer, better-looking buildings.

Legally Permissible

The existing improvements conform to the industrial zoning.

Financially Feasible

As improved, the five buildings on about 3.5 acres are financially feasible. However, the remaining 6.417 acres (net) is excess land.

Maximally Productive

The maximally-productive use of the subject property is to continue in its current use until such time the land value is equal to or greater than the value of the buildings as supported by the 3.5 acres. At such time, the property will be ready for redevelopment.

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E. NELSON BOWES, MAI, CRE, PE
J. VIRGINIA MESSICK, MAI

EXPORT PLANT
PAGE 12

There is a spirit of peaceful co-existence among uses in Libby that is not typical in other markets. An example is the area northwest of the subject. It is a pleasant residential area that is entered through old, poor-condition industrial (the subject) and ends in old, poor-condition industrial and the city sewage treatment plant. In most markets, this residential area would be a slum. Uses that would not be near each other in most markets are okay here.

The Burlington Northern Railroad abuts the subject to the south. This is an active rail line that creates extensive noise. The existence of a rail line is a plus for an industrial site, and a minus for residential, although there are residences abutting the railroad in Libby.

The northern boundary abuts the Kootenai River which is an amenity, especially for residential use. The rail line follows the river. Therefore, in Libby, water frontage includes a rail line nearby.

As previously discussed in the area description, there is minimal population growth, high unemployment, and a declining timber industry. There is no identifiable development for this ground now. It is probable that:

- The buyer would be a gambler with patient cash.
- The anticipated hold would be long term, say greater than 5 years.
- There would be some anticipation of residential use near the river and industrial near the tracks.
- It is likely the road would be moved to the southwest to create more riverfront ground.

E. NELSON BOWES, MAI, CRE, PE
J. VIRGINIA MESSICK, MAI

EXPORT PLANT
PAGE 11

HIGHEST AND BEST USE**Legally Permissible**

The subject is zoned industrial which provides for manufacturing process, business, or treatment. Uses allowed in the residential and business districts are permitted in the industrial zone.

Financially Feasible

There is a spirit of peaceful co-existence among uses in Libby that is not typical in other markets. An example is the area northwest of the subject. It is a pleasant residential area that is entered through old, poor-condition industrial (the subject) and ends in old, poor-condition industrial and the city sewage treatment plant. In most markets, this residential area would be a slum. Uses that would not be near each other in most markets are okay here.

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- It is likely the road would be moved to the southwest to create more riverfront ground.

APPRAISAL METHODS/SCOPE (REAL ESTATE)

The three traditional appraisal approaches to value are the cost approach, sales comparison approach, and income capitalization approach. They are described as:

Cost approach. Based on the premise that the value of a property is indicated by the current cost to construct a replacement for the improvements, minus the amount of depreciation from all causes evident in the improvements, plus the value of the land.

The land value is vital, but the rest of the cost approach is omitted. The depreciation (physical and obsolescence) is almost 100%, and there is no point going through the exercise.

Sales comparison approach. Based on elements of direct comparison. Adjustments are made to the sale price of each comparative property to reflect the differences between the sale and subject property.

The sales comparison approach will be used to value the land.

Income capitalization approach. Based on measuring the present value of future benefits of an ownership. Income streams and reversionary values are capitalized/discounted into a lump-sum value.

There are some aspects of the income approach that will be applied to find improvement value.

Data needed for this assignment include:

- land comparables
- improved comparables
- income data

The data were gathered primarily from the Libby area. All pertinent data gathered have been presented, discussed, and considered. All sales were confirmed to assure an understanding of the actions of the market.

LAND VALUE BY COMPARISON

In order to estimate market value of the subject site, we surveyed the Libby area for comparable land sales. Locations of the comparable land sales are shown in Figure 5, page 15, and pertinent details are summarized in Table I, facing page 15. Photographs of the comparables are in Exhibit B.

The 12 comparables indicate a price range of \$4,858 to \$54,461 per acre before adjustments. This seems to be a huge range, but the comparables make good sense after analysis.

We analyzed the comparables based on the following items of comparability:

Property Rights. All sales were fee simple, 100% interest.

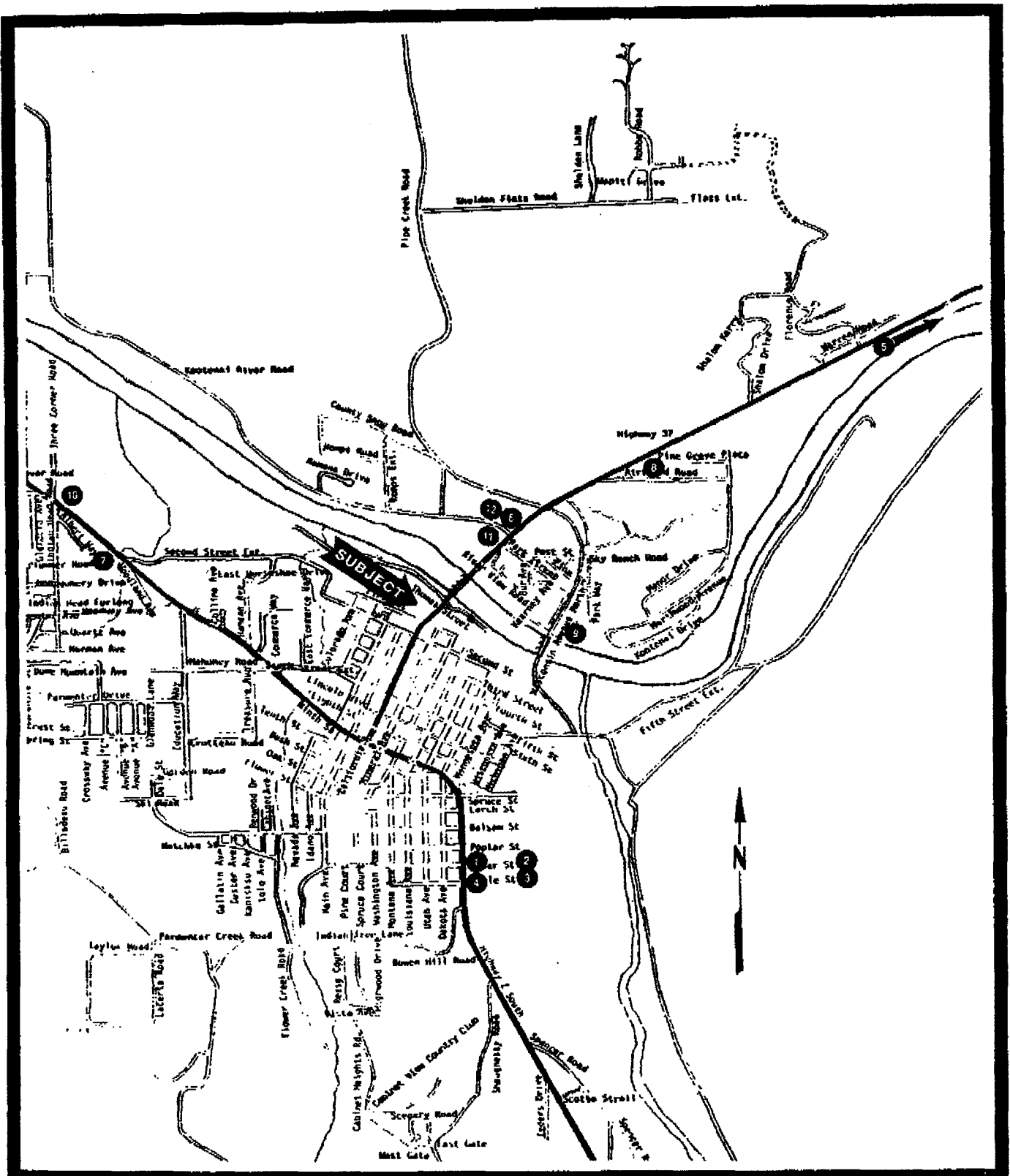
Financing. All sales were cash to the seller except for Comparables 4, 9, and 10 which were land installment contracts. However, the confirmations suggest that these contracts did not affect the sales price. Therefore, no cash-equivalency adjustment is made.

Conditions of Sale. All sales were arm's-length transactions. However, Comparable 7 was purchased for the U.S. Forestry Service. The buyer then improved the land with an office building and leased it back to the Forestry Service. Since the buyer's lease payment would be based upon total cost, the cost of the land was insignificant. When using other people's money (U.S. citizens) it is easier to be cavalier. Also we are told the buyer did not know that the property did not have city sewer until after construction. Up until this time, the highest priced property on U.S. Highway 2 was for the land for the Asian restaurant just north of Comparable 7. It sold for \$40,000 for the 1-acre site.

We presented Comparable 7 because we are aware of it. No consideration was given to this sale due to the conditions of sale.

TABLE I LAND COMPARABLES										
COMP	LOCATION	GRANTOR/GRANTEE	DATE	SALE PRICE	SIZE IN ACRES	\$ PER ACRE	FRONT FEET	\$ PER FRONT FOOT	DEED BK/PG	COMMENTS
1	E/S Hwy 2S at Poplar St	Stimson Lumber Company/ Anthony J Berget	11/95	\$ 125,000	25.7300	\$ 4,858	1,000	\$125	218/421	Cash. Well and septic. Property improved with 3 airplane hangars totaling 174,000 sq.ft. Estimated cost to turn on power was \$10,000. Cost to tear down hangars was \$125,000.
2	E/S Hwy 2S at Poplar St	Universal Land, Inc (Berget)/ Montana Timberline, Inc	8/98	60,000	6.8300	8,785	none	NA	227/331	Cash. Well and septic. Buyer was planning to store logs in the 174,000-sq.ft. hangars and then roof caved in due to heavy snow.
3	E/S Hwy 2S at Poplar St	Montana Timberline, Inc/ David A Strand & Brian D Leisz	1/97	50,000	6.8300	7,321	none	NA	232/187	Cash. Well and septic. The lower sales price from Comparable 2 reflects the collapse of buildings. Buyer is currently salvaging the building and selling the timber.
4	E/S Hwy 2S at Poplar St	John Riewoldt/ David L & Renée Gaustad	1/98	40,000	1.0000	40,000	150	267	245/523	Land installment contract. City water and sewer. Since purchase, buyer built Graybear Trading Post, a retail center.
5	500 Hwy 37N	W R Grace & Co/ Melvin G & Leraht Parker	12/83	128,000	21.1000	5,972	2,000	63	195/628	Cash. Well and septic. Fronts on river. Property improved with large sheds. Buyer purchased for nursery.
6	NEC Hwy 37N & Kootenai River Rd	Champion Realty Corp/ Randall C & Linda R Remp	12/85	40,000	1.7800	22,472	191	209	218/787	Cash. Well and septic. Since purchase buyer improved site with a 2,434-sq.ft. metal building used as a retail store for Dream Marine.
7	1101 Hwy 2N	Willie R & Sandra A Watson/ Mountain States Leasing (Wayne Paffhausen)	3/98	189,600	3.6650	54,461	445	449	247/311	Cash. City water and septic. Since purchase the buyer improved site with a U.S. Forestry Service building.
8	Between Hwy 37N & Airfield Rd	Frank Fahland/ Connie Schwarzenrubner	6/99	33,500	2.2300	15,022	207	162	257/573	Cash. Well and septic. Since purchase buyer has built a sports therapy center.
9	1485 W Wisconsin Ave N	Lois G Post/ Robert E Strahlow	5/99	150,000	11.5900	12,942	none	NA	256/872	Land installment contract. Well and septic. Mobile home park.
10	E/S 1200 block Hwy 2N	Elmer T & Verda I Higdon/ David A & Peggy Strand	6/96	75,000	3.3900	22,124	422	178	224/968	Land installment contract. City water and septic. Since purchase property is being used as a mobile home sales lot.
11	SWC Kootenai River Rd & Hwy 37N	Champion Realty Corp/ Jehovah's Witnesses	12/85	45,000	2.5770	17,462	252	179	218/964	Cash. Well and septic. Purchaser plans to build a church.
12	N/S Kootenai River Rd, 230 W of Hwy 37N	Michael E Goodman, Ralph E Goodman, Judith Goodman/ Christian Church of Libby	11/98	70,000	5.0955	13,738	335	209	254/217	Cash. Well and septic. Purchaser plans to build a church.

FIGURE 5
LAND COMPARABLES



E. NELSON BOWES, MAI, CRE, PE
J. VIRGINIA MESSICK, MAI

EXPORT PLANT
PAGE 16

FIGURE 6A

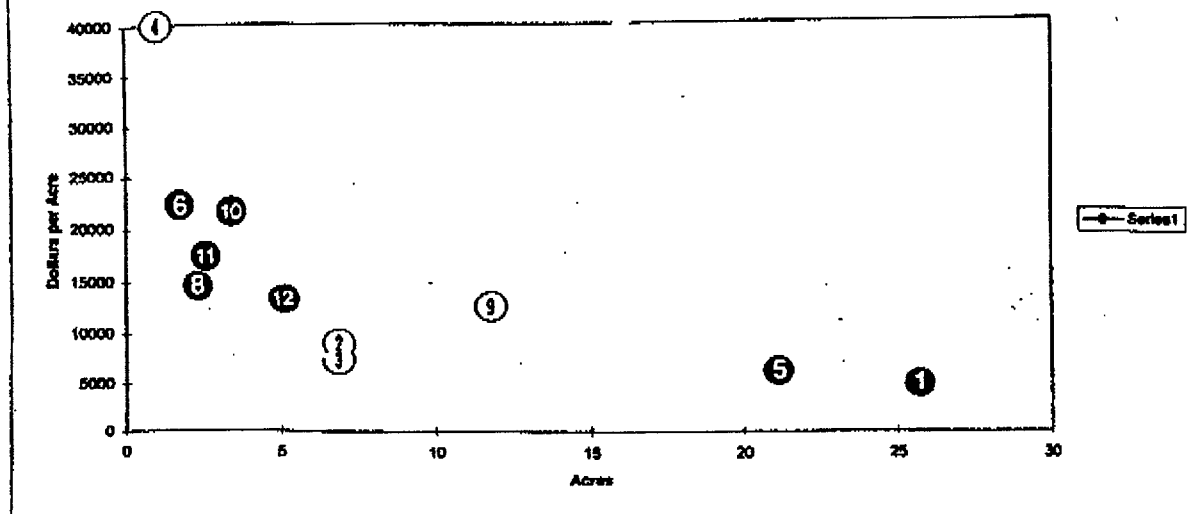


FIGURE 6B

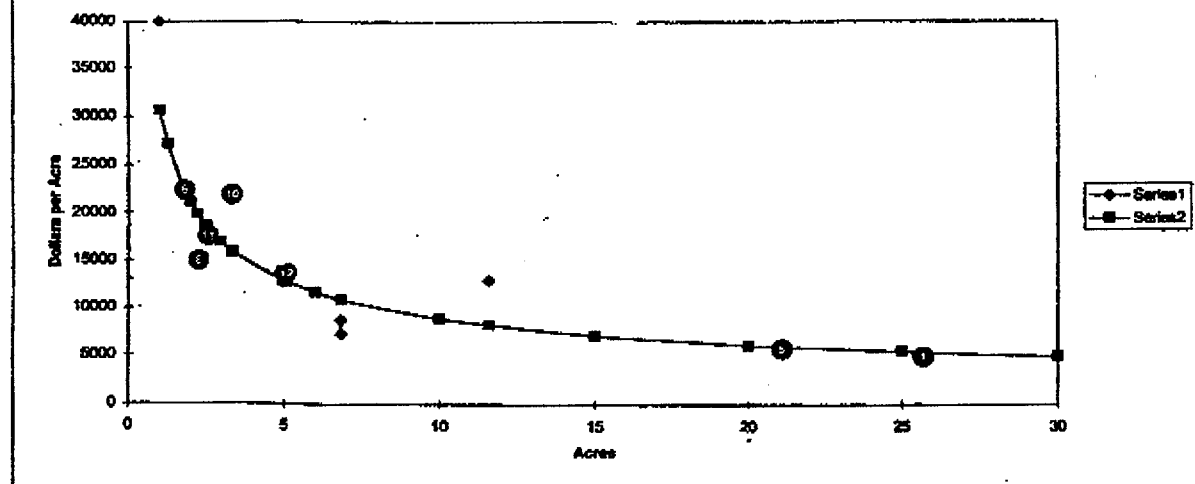
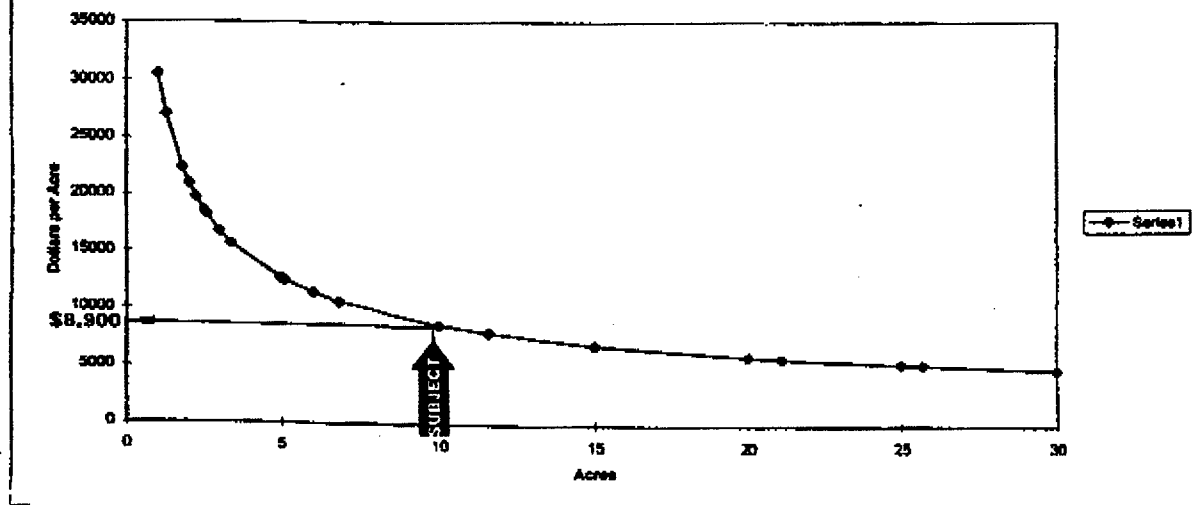


FIGURE 6C



LAND VALUE BY COMPARISON

Location. Comparables 2 and 3 fall well below the trend line. These two comparables are set back from U.S. Highway 2 South. Comparable 4 has frontage on U.S. Highway 2 South within the city limits. It also has public sewer which makes use of 1 acre easier.

Improvements. Comparables 1 and 5 were improved at the time of sale. However, the improvements did not appear to add significant value. Comparable 3 was an unimproved resale of Comparable 2. The slight difference might logically be attributed to the building. Comparable 3 is helpful in another way. The collapsed building is being dismantled for its wood. This is an excellent comparable situation for Subject Building C which is wood.

Comparable 9 has a mobile home park. The improvements appeared to add about \$4,900 per acre. This will be addressed later.

CONCLUSION

There is commercial activity in Libby. Entrepreneurs are buying, selling, and taking risks. The larger the property, the fewer the risk takers. Figure 6 clearly shows the decline in price per acre with size.

The subject site contains 9.917 acres (net) and falls on the trend line in Figure 6C at about \$8,900 per acre for a total value of:

$9.917 \text{ acres} \times \$8,900/\text{acre} = \$88,261$
Rounded to \$88,000

INCOME CAPITALIZATION APPROACH

We relied upon the income capitalization approach to estimate the contributory value of the improvements. The City of Libby has a month-to-month lease with Millwork West, Inc. The rental rate is \$600 per month, triple net.

Mr. Phil Spencer leases the small storage building for \$100 per month, triple net, on a month-to-month lease. However, Mr. Spencer is 5 months in arrears and has been sent a notice to vacate.

Relying upon these two leases as representing market rent, total annual rent is \$8,400 ($\700×12).

Vacancy is a difficult number in Libby. On several occasions when we were asking about rents, people would respond that it does not really matter; no one pays the rent anyway. The subject is both an example and a counter argument:

- Spencer has not paid in awhile. That is a lot like not having a tenant at all.
- Burnett does not appear to have missed a rent payment in the years he has been there. That is a lot like having a AAA tenant.

We will apply 10% for vacancy.

Unfortunately, we were told by the assessor's office as well as a local real estate appraiser that there are no overall capitalization rates to be found in Libby. This turned out to be true; we could not find one. Therefore, we had to rely on logic and our experience.

Typically buildings of this age and condition would have high capitalization rates applied to the net operating income. As discussed earlier in this report, real estate is depressed in Libby. The result is that the future is up; no one knows how far away the future is, but it is up. This would tend to lower the capitalization rates. We will apply a range of 10% to 12%.

INCOME CAPITALIZATION APPROACH

The indications appear as follows:

Gross potential income - \$700 per month times 12 =	\$ 8,400
Less vacancy at 10%	-840
Effective gross income	\$ 7,560
Less expenses	net rent
Net operating income	\$ 7,560
Capitalized at	10% 12%
Indicated value	\$ 75,600 \$ 63,000

In the land valuation section we estimated land value at \$8,900 per acre. About 3.5 acres are supporting the buildings or about \$31,150 (3.5 acres times \$8,900) of land value. Subtracting the land value from the total improved value.

Indicated value	\$ 75,600 to \$ 63,000
Less 3.5 acres land value	-31,150 to -31,150
Improved value	\$ 44,450 to \$ 31,850
Rounded to	\$ 44,000 to \$ 32,000

An additional estimate of improvement value can be made from Figure 6C (repeated on facing page). The spread between Comparable 9 (improved) and the trend line (unimproved) is about \$4,900. This would suggest that the improvements on Comparable 9 are worth \$4,900 per acre. Applied to 3.5 acres:

$3.5 \text{ acres} \times \$4,900/\text{acre improvements} = \$17,150$
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This is not a good estimate. Its improvements are mobile home pads and there are no commercial or above ground buildings. However, it does clearly show that improvements are worth something.

The comparable shows a positive improvement value and the income suggests \$32,000 to \$44,000. The income numbers were not tight, and we believe that a prudent purchaser would go to the lower end. We will apply \$32,000.